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AID MODALITIES IN LEAST DEVELOPED AFRICAN COUNTRIES

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AID MODALITIES IN LEAST DEVELOPED AFRICAN COUNTRIES

PREFACE

This paper is based on the report of a senior ECA consultant and has been prepared as part of the preparations for the United Nations Conference on the Least Developed Countries.

The report was prepared on the basis of the discussion the senior consultant and some ECA staff had with officials of the governments of a selected number of least developed African countries and bilateral and multilateral donors.

The paper is divided into 5 sections. Section I is an introduction. Secion II and III deal with the views expressed by recipients and donors respectively on those aspects of aid modalities over which they have strong reaction. In section IV a possible reconciliation of the the two sides is attempted. The final section deals with issues that are of particular concern to the least developed African countries.

AID MODALITIES IN LEAST DEVELOPED AFRICAN COUNTRIES

I. Introduction

1. One of most important constraints on the efforts of developing countries to accelerate the pace of economic and social development now appears to be the foreign exchange bottleneck. The close correlation between imports and the rate of economic and social development in the third world is by now an established fact. The immediate postwar development experience and that of the decade of the 1960s and 1970s have amply demonstrated the close association between import capacity of the developing countries and the pace of economic development. The ability of a country to finance a rising volume of imports of capital goods and intermediate goods for industrialization - and even in the best cases of consumer goods, as a safety valve for easing shortfalls in domestic supply and thereby control the rate of inflation - has been demonstrated as an essential, indeed a crucial, ingredient of sustained economic and social progress.

2. One of the most significant and encouraging features of postwar international relations is now the involvement of governments in the encouragement and the channelling of resource flows from developed countries to the poorer ones. Government effort has been both direct in the form of government to government loans and credits, as well as indirect through guarantees to private loans, investments and export credits. The effect of this has been to facilitate access to an unprecedented volume of supplementary resources by countries whose needs for external capital and foreign exchange outstrip their ability to attract such funds. For most countries in Africa who typically depend on one or two primary products for not less than two-thirds of their export earnings, the ability to import development goods from these earnings has been severely handicapped both by the traditional instability of the international commodity markets and by the extreme difficulty of increasing total export earnings from such commodities. It is against such a background that the international development effort in the extension of aid is of particular importance.

3. Through this effort it has been possible to increase the volume of external assistance to developing countries and yet the increased assistance has not as yet successfully stimulated and strengthened the productive capacities of these countries. For Africa south of the Sahara the picture is even worst. Almost everyone in the region has on the average considerably less access to food, for example, than was the case either 10 years ago or pre-independence years. The files of most economic development institutions show that during the 1970s Africa's annual population growth which was 2.7 per cent was 14 per cent higher than the average for developing countries generally. The picture for the 1980s is no better. Whereas in the rest of the developing world population growth rates are forecast to decline, the rate in Africa is expected to be 2.9 per cent.

4. The World Bank, for example, on a conservative estimate, projects that per capita real incomes in the poorer African countries would decline by 0.3 per cent annually during the first half of the 1980s whereas the annual growth rates for the poor areas of Asia will be 1.1 per cent (positive). For the second half of the 1980s the same poor areas of Africa is projected to achieve a growth rate of 0.1 per cent compared with 1.5 per cent for low income Asia or 2.3 per cent for the totality of the developing world. Statistics of this kind naturally raise concern not only among Africans but also among the world community. As a result,

a number of UN resolutions have been passed to recommend special measures in favour of the least developed countries in order to raise their access to investible funds so as to remove the structural constraints to their development. A significant forward step in efforts to expand assistance flows to these countries was taken by the fifth session of UNCTAD, which by resolution 122 (V) adopted and urged the implementation of a Comprehensive New Programme of Action to aid the least developed countries.

5. As a result of continuing dialogue between recipients and donors to improve the modalities for aid, to facilitate a more effective use of aid, some progress has been made in that direction although more still remains to be done. In this connection the work of DAC in putting forward guidelines on local and recurrent costs, on tying, etc. can only go a long way in helping to solve some of the thorny problems that both donors and recipients have encountered in the aid delivery system. Mention must also be made of the meeting of the Multilateral and Bilateral financial and technical assistance institutions with representatives of the least developed countries in Geneva in 1977 and the efforts of UNDP to simplify aid procedures through its report on "Consultations on more uniform or standard procedures to facilitate the Administration of Development Co-operation".

6. We understand by aid modalities, the practices, conditions and terms on which aid is given, including the delivery system for aid.

II. The views of the recipients

i) Uncertainty with aid. 7. External aid has tended to fluctuate from one year to the other because it is not related to the recipient's investment plans. The aid is more or less determined on an ad hoc basis. Some donors adopt multi-year planning frames with or without annual consultations. Others simply base their aid on a project by project approach. Consequently African LDCs find it difficult to predict the quantum of aid that is likely to come from some of these donors at any one time, let alone to plan for it.

8. Recipients are therefore of the view that if the pledge for external assistance could be made on a longer or medium-term basis, they would be able to know in advance how much to expect and in turn be able to select projects or programmes on which such funds are to be spent. In this connection most recipients cited the cases of Sweden and Canada. The former adopts a three year planning frame with annual consultations while the latter uses a five year frame with annual consultations.

9. The LDCs in putting forward these suggestions were not oblivious of some of the limitations that some of the donor countries have at home. For example many of them observed that while the USAID pursues a five year planning frame they are presently unable to hold annual consultations presumably because annual commitments are made by Congress. In a situation such as this USAID officials could run the risk of their recommendations being scaled down. Many donors also find themselves in the situation of the USAID and, therefore, it will be of great help to recipients if donors were to adopt a 3 to 5 year planning frame with annual consultations. Such a step will remove uncertainty and make planning smooth; it should make it possible for recipients to predict with certainty how much aid to expect in a given period.

ii) Projects and non-project assistance. 10. According to the Annual Reports of the OECD for 1979 and 1980, at least no more than 30 per cent of the total flow of funds to LDCs was devoted to non-project items during the period under review. The reasons for devoting so much of the flows to projects would not be difficult to find. First, projects were easier to control and monitor than non-projects. Second, projects created a lasting impression on the minds of the recipient countries regarding the generosity of the donor countries. Third, to service the project, it would be necessary to depend on the donors and so it would create an outlet for their exports. Not only has aid been geared to projects as against programmes or sectors but in most cases the projects financed have been of an infrastructural nature. Recipients are convinced that there is no doubt that infrastructure in least developed countries is underdeveloped and that external assistance is essenti to develop it. They however feel that there has been too much concentration in this area with the result that productive sectors such as agriculture, livestock, industry, etc. which are quick yielding in nature have been somewhat overlooked. Moreover as a result of this heavy emphasis on projects it is not uncommon to find a multiplication of donor projects in a particular sector of the economy. In Tanzania, for example, government has to deal with 19 different donors over 87 projects in the agricultural sector alone. In water, power and minerals the government has to deal with 16 different donors over 45 projects. Obviously in situations such as these the only likely outcome is an increase in the burden of administration of the Tanzanian managers. Although an increase in both project and non-project assistance is essential, a shift to programme lending or sectoral lending would be very much appreciated. The emphasis on project assistance, if carried too far, could result in donors unwittingly financing marginal projects or protracted delays in aid delivery.

11. The African least developed countries do appreciate the reasons which have led to the increased emphasis for projects on the part of donors. First, it is easier to match finance and revenue on individual projects than on programmes. Second, the donor country can identify the item financed and use it at home to support its case for more aid. But it ought to be realised that quite apart from the needs of the LDCs to go for "basic-needs" projects which invariably tend to be small projects and can best be financed through local development banks on basis of lines of credits, there is the added problem that they lack many well prepared and documented projects. To the extent that LDCs must of necessity look for some commercial loans to supplement what they get in concessionary funds, there is need for donor countries to increase their programme loans to free the few well prepared projects for commercial bank financing. The need to do this is becuase bank regulations in developed countries accept more favourably project-linked loans as opposed to programme or balance of payments support. If donors could do this, LDCs may be able to benefit from an increased flow of funds.

iii) Criteria for project selection. 12. By and large most of the donors use the same procedures for processing applications for external assistance. Typically they include project identification, preparation, appraisal, review, negotiation with the recipient, approval by the donor and signature of the aid document. By the time the aid gets to the signing stage it would have been subjected to a number of tests to see if the project or programme is worth supporting. Some of the criteria used are quantitative, others are qualitative. Some are designed to help determine the financial viability of the project; others are to show the economic desirability of the project from the standpoint of the recipient country. Planners in LDCs are of the view that in the end it is the financial rate of return which gets the greatest weight in the decision whether or not to grant the aid.

13. Most of them do not a priori object to this since if the aid were a loan they would wish to be assured that the project would be able to generate enough cash to service the debt and leave a surplus. What bothers some of the planners is that some of the donors are so obsessed with the financial rate of return concept that it is often very difficult to dialogue with them. They point out that this is particularly so when the donors have been asked to look at projects in a sector other than the sector that the donor would have liked to choose.

14. It is to be hoped therefore that arising out of the country review meetings. donors would be able to know and focus on the actual problems of individual countries which have often dictated their desire for prefering the financing of certain projects against others. If at the end of the conference we would have succeeded in overcoming the problems of narrow economic and financial criteria for project appraisal in LDCs, a major objective of the conference would have been served.

iv) Lengthy project cycle. 15. Quite apart from the problems which LDCs have about the criteria of selection issues the countries also complained bitterly about the length of time that it takes a donor to accept an identified proposal for financing. They feel the process often takes about two to three years. If on top of that one needs about four to five years to complete the implementation of the project then in all a period of seven to eight years is needed for a single project reach the stage where production actually commences. In the circumstance there is no way that the LDCs will be credited with having a high absorptive capacity.

16. Essentially what happens in practice is that project ideas do come to the attention of the donors either through enquiries made by the prospective recipient, or through other donors, or from the potential projects file maintained by the donor. Often it takes the donor about a year before it concludes that it has all the information relating to projects' probable cost, the priority attached to it, the rationale which has prompted the recipient to select the particular donor, etc. before the proposal is admitted to the active pipeline. Thereafter it may take a further three to six months to look into issues relating to the projects design and alternative ways of bringing it about. If the project at this stage is adjudged to be technically, economically and financially viable, it is then passed on for appraisal. The latter tries to give prominence to economic aspects, development value, direct and indirect impact, priority significance, etc. associated with the project. If these meet the criteria established by the donor then the recipient is invited to enter into negotiations for the aid. After the draft agreement is approved by the donor's governing council, the aid agreement is signed. LDCs feel that the processes involved can be too long and unproductive and should therefore be shortened.

17. It is difficult to see how the time can be reduced significantly if donors will continue to concentrate their aid on projects and also insist on year to year aid donations. A combination of projects and non-project aid will go a long way to improve the situation. Multi-year planning may also help in the sense that the time it takes to handle two or three projects is not sifnificantly different from the time needed to do one project. The existance of a shelf of well prepared projects would also help to reduce the time needed to process the project. However as far as the project cycle itself is concerned perhaps what can be done is either to combine the identification and project preparation phases or the preparation and appraisal phases. This in any case may only lead to about six months savings in time.

v) Local cost financing. 18. Until very recently most donor countries had made it a policy of lending or giving grant to cover only the foreign exchange cost of projects that they financed; leaving the recipient country to cover the local cost component. The rationale for this stance was that foreign exchange was and is a scarce commodity being sought after by a number of applicants. Besides, where the aid was a loan, it had to be repaid one day, in foreign exchange. Consequently to lend foreign exchange for local currencies purposes would not be financially prudent.

19. Perhaps this sort of position was in order when donors used to concentrate their financing on public utilities, etc. However, now that the donors themselves seem to be emphasizing socially-related and rural development projects, which obviously have high local overheads, it is doubtful whether the donors could rigidly stick to this. And the signs are they will not because they now realise that local cost financing has often proved a bottleneck in the use of aid. This has come about as a result of budgetary constraints that developing and least developed countries have been experiencing in recent years.

20. African LDCs are appreciative of DAC members recognition that local cost financing can assist in the development of their economies in a significant way, and are now prepared to provide funds to meet local currency needs. As would be expected DAC donors have stipulated the criteria or conditions which must be met before recipients can qualify for such assistance. These criteria, to quote, relate to:

i) the degree of resources in terms of the savings potential;
ii) the degree of scarcity of resources in terms of fiscal base;
iii) the level of under or unemployment;
iv) the nature of the general development programme;
v) the strain on the economy of the recipient which could be cuased by increased demand for imports and inflation generated as a result of development programmes whose local costs are met from internal resources.

21. While the rationale for these criteria have not been spelt out, it is not hard to see that some of them are intended to ensure that recipient nations will contribute to the development of projects in their economies in order to retain their interest in all aspects of the project. Ordinarily no one would quarrel with such a condition in so far as those who have the capacity to enlarge domestic revenues substantially each year are concerned. But can one seriously say this about the economies of the LDCs. Aren't such economies characterized by a sluggish economic growth, low productivity of investments, low domestic savings compared to investment levels and in turn show such symptoms as low real income per capita, increased dependence on foreign savings, lack of counterpart funds for foreign-financed projects, etc.

22. It would appear therefore that there is a need to take a second look at the conditions as far as LDCs are concerned. Obviously where the pace of foreign assistance is beyond the rate at which local resources can be mobilised, and if the intended aid would make sense in all respects, then there would appear to be little reason for not considering total project financing.

that the designated shipper may not have readily available ships at the time when shipment has to be made but because the aid is tied to the particular shipper all one can do is to wait. Problems have also been known to be encountered in areas where donors have banned certain items from the list of supplies authorised for procurement with aid money. For these and other reasons, too numerous to mention, African least developed countries would wish to see procurement rules and procedures being made simple and flexible to facilitate project implementation.

34. The same applies to disbursement. In general, disbursement takes the form of: reimbursement for payments made by the recipient country from its own funds, reimbursement for payment made directly by a commercial bank against a letter of credit or by means of an advance of funds from the donor to the recipient country in the form of a revolving fund. Disbursement in the form of reimbursing the recipient country for payments made from its own funds pre-supposes the ability of the borrower to make available such funds. Rarely do these countries find themselves in that happy situation. Often, they must borrow funds on a short-term at commercial rates to fulfill their obligation. It follows, therefore, that in the case of this type of disbursement the overall cost of aid is bound to be higher than what was originally envisaged.

35. Nor is the situation any better with reimbursement to commercial banks since payments made against letters of credit also entail bank charges. For these reasons, African LDCs would prefer to have disbursements on the basis of advance payments or, where appropriate, direct payment by donors to suppliers upon production of relevant certificates of compliance. As with procurement, African LDCs want simplification of the rules and procedures. They would also wish to have technical assistance to help them fulfill the conditions precedent to disbursement as well as the necessary documentation.

ix) Aid terms. 36. No given terms and conditions of aid can be said, ab imitio, to be good or bad except in relation to the purpose for which the funds are intended. And yet, for African LDCs, it will not be wrong to say the terms have been hardening. In part this is due to the earlier failure on the part of donor countries to make a systematic and deliberate effort to relate the terms and conditions of loans to the recipient country's ability to pay. In part also the terms appear to be hardening because of the decline in official development assistance that is going to African LDCs in relation to total resource flow. Thus contrary to the exhortations of the United Nations that average interest on official development loans hould not exceed 2 per cent per annum, or that maturity periods of such loans should be at least 25 to 40 years or that grace periods should not be less than 7 to 10 years, etc., the picture that is emerging for Africa South of the Sahara is as shown in table 1. All round, the terms are hardeing and this can only make the road to quick development a bumpy and hazardous one.

37. What the table suggests is that exte nal assistance to Africa should be on concessional terms, and as far as possible on grant terms. Most of the countries visisted emphasized the grant aspect of the aid as against the terms as such. They however had one reservation, and that is grants that are tied. With the tying

Table 1. Aid terms for Africa South of the Sahara

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Maturity years	25.2	21.5	21.4	20.4	19.5	20.7	19.4	19.0	17.3
Grace years	6.6	6.1	5.7	5.7	5.8	5.3	5.0	4.7	4.9
Interest rates	3.7	4.4	4.4	5.4	5.5	5.6	5.4	5.6	6.4
Grant element in loans (%)	46.0	39.0	38.0	32.0	32.0	31.0	31.0	30.0	25.0
Grant element in loan + grants (%)	54.0	52.0	53.0	40.0	43.0	43.0	41.0	40.0	38.0

Source: World Bank, Annual Reports, 1978, 1980.

they are not only being induced to choose technologies that may be more capital intensive than what they could have been able to come up with if they had the freedom to look elsewhere, but also in the process they seem to be accentuating the problems with recurrent cost financing where the tied equipment is purchased from a high cost market.

ix) Debt relief. 38. Debt relief is deemed to be aid. The Africans do not quarrel with that, but to treat it as such can have bizarre results. Thus, for example, debt relief might be given for the purchase of a plant that was installed a few years ago but which may now be standing idle for lack of foreign exchange to purchase raw materials required to put the plant to use and thereby help expand the economy. In a sense then debt relief and additional aid perform different functions and should not be regarded as a substitute for the other. Debt relief should provide the breathing space for the nation during which additional aid should be given to facilitate the restructuring of the economy.

39. In reality, however, there has been a growth in the burden of indebtedness of least developed countries, in spite of the high grant element of ODA from major bilateral and multilateral sources. At the Ministerial Meeting of the UNCTAD Trade and Development Board in 1978, DAC member countries agreed to consider retroactive terms adjustment of their outstanding ODA loans to the LDCs (Resolution 165(S-IX)). As shown in Table 2, however, some countries have not yet complied, and this is a matter for concern.

40. And while on debt relief there are two other points that are worthy of mention. Whereas it would seem logical that a debt relief or debt arrangement, once it has been agreed upon that it should be carried out would be determined in the light of a mutually agreed set of development objectives, the tendency is to ignore all discussions relating to medium-or long-term growth of the country concerned. Thus even though aid has been given, it has not been tailored to suit the peculiar circumstances of the country and hence the relief may not have any effect at all on growth.

Table 2. Summary of number of developing countries affected by action taken by DAC member countries pursuant to section A of resolution 165 (S-IX)

	Debtor countries benefiting		Least developed countries not benefiting	Debt relief benefit to least developed countries (M. US$)
	Total	of which least developed		
Australia a/				
Austria	3	-	-	-
Belgium	5	2	2	2.1
Canada	12	12	1	292.4
Denmark	16	15	-	90.0
Finland	6	3	-	26.0
France	10	10	3	122.9
Germany Federal Republic of	17	17	6	1 700.0
Italy	10	6	-	n.a
Japan	18	11	-	945.0
Netherlands	12	5	2	159.1
New Zealand	3	1	-	1.0
Norway b/				
Sweden	9	5	-	87.8
Switzerland	7	2	1	13.5
United Kingdom	17	10	2	167.9
United States c/				

Source: UNCTAD secretariat, based on information supplied by the creditor countries and other sources.

a/ Exact beneficiary countries not known.

b/ All debts had already been written off (see TD/234/Add.2).

c/ The beneficiary countries are not known.

41. Also the prevailing system of debt rescheduling or re-arrangement tends to tie up essential administrative manpower, thereby denying these scarce services to the urgent task of improving economic management to expand the economy. Negotiations involve not only a long drawn out affairs on multilateral discussions but also involve supplementary bilateral negotiations with several creditor countries. The sum total of the expense involved in negotiations is to annul the aid that has been given. It may perhaps therefore be worthwhile if debt relief should be given just by the stroke of the pen.

xi) Technical assistance. 42. While an effective aid package may combine capital and technical assistance, one overriding priority can be singled out for African LDCs. This is technical assistance. In the past too little of it has been given. Where it has been given in abundance it has lacked in the requisite quality needed for the job at hand. What African LDCs need to enable them to utilise aid effectively and efficiently is the kind of technical assistance which enables the recipients of aid to make the fullest use of their own local resources and of whatever other forms of assistance that may be offered. At a time when the developed economies have excess productive capacities in their industrial, agricultural, educational, etc. establishments, it should not prove difficult to provide African LDCs with the

near best technical assistants. Here again the practice used by Sweden, Canada and West Germany is worthy of mention. For Sweden for example the recipient country is often given the choice of where to recruit the personnel. Furthermore training of local technicians may very well be carried out in other developing countries that may have the relevent facilities. A number of countries visited indicated that they had taken advantage of this by having Sweden sponsor their trainees in other developing countries.

III. The views of the donors

43. Donors also had their complaints to make. In fact some of them could not understand why the least developed countries, so badly in need of foreign exchange either to bridge internal savings gaps, or to break bottlenecks or provide imports for which there is no adequate foreign exchange substitute, would not hasten to utilize funds placed at their disposal. In some cases they had to go back to their parliaments to ask for a "revote" since the time fixed for the use of the money in the budgetary appropriation would have lapsed. As a result legislators had a tendency to reduce whatever levels of amounts they asked for which in effect prevented them from giving more to those who actually need more. Perhaps one way of remedying the situation is for all donor countries to lift or relax the financial and time limits currently imposed on carry-over authorisation, such that carry-over authorisations of aid could be increased from year to year or become virtually unlimited.

i) Self-reliance overemphasized. 44. In the end Africa's salvation lies in its own hands. Least developed countries do realize that the brunt of the battle against the evils of poverty has to be borne, and rightly so by them. Therefore least developed countries which try to minimise the ratio of foreign assistance and investment to their domestic investmental resources can only be congratulated. It has been argued by knowledgeable Africans that Africa needs to choose its own life styles and development methods. These together with the principles of self-reliance, self-sustainment and self-sufficiency, are the pivots of the Lagos Plan of Action. But one needs to take into account the peculiarities and the extreme poverty and weakness of the LDCs to appreciate the herculian task that this approach would involve for them. It is not going to be easy for this set of countries, all efforts must be made to rally round useful and meaningful international assistance in their support.

45. For those who decide not to go it alone the donor countries would wish that they spell out clearly their priorities. Donors are of the view that this should not be hard to do. This is because there is no way, for example, that agriculture or agro-related programmes can fail to be pivotal for most of the poorest countries of Africa during the balance of this century. There is also no way any least developed country can ignore expanded energy production as a high priority issue especially when all LDCs are oil-importing developing countries. What the donors need is a careful articulation of priorities. If for example recipient countries feel they do not want food aid because it can enervate indigenous agricultural effort then they should say so in no uncertain terms and donors will respect such a stand.

ii) Government economic policies. 46. Donors think that governments of LDCs have often followed economic policies that have not been conducive to effective use of aid. The issues which got frequently mentioned were wages, prices and overvalued currencies. The donors found some economic policies inconsistent with the

political objectives of the countries. For example country X may announce that it wants to be self sufficient in the next few years so that it will not depend on aid, especially commodity aid. In the interim it agrees to accept food aid such as wheat from a donor country. Meanwhile country X has made it an economic policy that the price of bread will never be allowed to exceed $Y and as a result even though that country can produce wheat, farmers do not get the price incentive to go into wheat growing. Soon the time that country X fixed to be self-reliant is around the corner. This may be the very time when its foreign exchange resources may be so tight that it cannot afford to refuse wheat as aid. In the end the bread pricing policy has not been a help and everybody is a loser. A long-term food aid policy is needed which could provide a basis for the government to undertake necessary reforms in food production.

47. The same is true with the wage policies of some of these countries. On the one hand the government may be willing to encourage agriculture but simultaneously the agricultural wage in the rural area is kept lower than the urban wage. Given the fact that there are usually no amenities such as electricity, pipe-borne water, etc. in the village areas, coupled with the low wages, the tendency is for the agricultural labour to move to the urban areas. The result is that there is food shortage and inflation sets in throughout the country.

48. Donors feel therefore that LDCs could make effective use of aid if they could take a hard look at their economic policies. Donors realise that some of the choices may be too difficult to pursue but if they are necessary they must be done. In a sense LDCs must choose between giving a bitter medicine to a loved son or daughter to cure him or her and resorting to caressing words that he or she would be alright in due course.

49. iii) A shelf of well prepared projects. Least developed countries, partly as a result of limitations in administrative resources, lack a shelf of properly identified, prepared and evaluated projects. In the event, requests for assistance which donors usually receive are backed by projects with inadequate information. In fact often the projects tend to be ideas and give no indication of: the total cost of each project; the priority attached to it; their relationship to the recipient country's development plan; the rationale which prompted the selection of those particular projects, etc. The lack of such information naturally makes the selection process difficult for the donors; and given the communication difficulties with most African countries precious time is lost. Donors therefore would want to have a pipeline of well prepared projects with statements on each sufficiently detailed to show the full project cycle and the anticipated time schedule related to each step of the project processing. They also of course will like to know the total project cost, the amount sought from the donor country and statement as to how the balance is to be provided. Also where possible prominence should be given to economic aspects relating to the projects; in particular their developmental value, direct and indirect impact, priority status and their implications on government revenue as well as on the balance of payments.

50. iv) Familiarisation with their rules and procedures. In part the scanty information that least developed countries are prone to give about projects and programmes for which they seek assistance is the result of the fact that most of them are not aware of the procedures and policies of the donor countries. According to donor countries it is not unusual to meet beneficiaries-to-be as well as officials of a number of countries who are not well informed on their policies and procedures. In some instances recipient countries do confuse the rules and regulations of one donor country for the other. The chief cause for this state

of affairs is that information relating to donor countries' policies and procedures, when forwarded through embassies or mailed to the relevant ministry in charge of economic co-operation do not get passed down to the various services or handed on to the other departments interested in assistance from the particular donor country. In some cases after donor countries have acceded to requests from recipient countries in making their policies, procedures, rules and regulations in the form of printed booklets, they nonetheless do not succeed in getting them distributed. If this were done, recipient countries will find it easy and less troublesome to decide on which donor country to approach for assistance with particular types of projects. It goes without saying that least developed countries should improve their co-ordinating and planning machinery if they are to benefit from sustained and increasing levels of aid.

51. v) Project implementation. The interest of a donor in a project does not end when finance has been agreed and the necessary documents have been signed. Effective execution of the project is essential, if its developmental benefits are to be realized. As a result the donor has a continuing concern with such issues as procurement and disbursement - the two key issues which usually delay project implementation.

52. Procurement policies of the donor countries are not always easy to follow but every effort must be made to have it under control. There is need to have a unit for procurement which is well staffed with legal, administrative, financial and technical people who can organize the selection and appointment of consultants to be entrusted with the whole issue of working on the tender documents, bids invitations, tenders pre-qualifications, bids analysis, evaluation and classification of contracts, contracts negotiation, contracts preparation, contracts supervision, goods, equipment and work reception. The work involved is so highly technical that it cannot normally be left to a group of civil servants to undertake it. And yet all too often it is the ordinary civil servant who is called upon to do this. If least developed countries are to benefit from the assistance which they receive from donor countries to finance projects, then a procurement unit becomes a sine qua non.

53. The same unit, given the multi-discipline staff that it has can also handle the problems relating to disbursement. In general, disbursement takes one of the following forms: by reimbursing the borrower for payments made from its own funds; by reimbursing a commercial bank for payments made against a letter of credit, or by making an advance of funds to the recipient in the form of a revolving fund to enable it to initiate the project. The recipient country is often given the choice to indicate the method or methods of disbursement it considers most convenient. But whichever one that it chooses, there is no substitute to knowing the rules that go with it. In keeping with the policy of carefully scrutinizing how the money is used, donors have established procedures to be followed so that they can trace each item that is financed from the placing of the order to the delivery of the item and its use. Here again all it takes is familiarisation with the documentation and entrusting of the job to the people with the requisite knowledge.

54. vi) Delays in payment to contractors. Regarding the issue of overrun, donors felt that the major cause for its occurrence, particularly that of local cost overrun, is due to contractor undercapitalisation which is itself due to non-prompt payment of their bills by the governments of LDCs.

55. Contractor undercapitalisation has been known to be the greatest cause of project material shortages, so also is contractor bankruptcy the cause of frequent rebidding of projects. Any of these can only lead to delays in project implementation and consequently the throw-up of overruns.

56. Invariably the problems of contractors do reflect those of the recipient government. Although the latter have an obligation to provide the necessary financing for the project execution, they very often, even when the money is available, resort to delay tactics in making payment and in turn hold up the work. Apart from this, some recipients also have very cumbersome payment procedures and rules that delays in payment have become the order of the day rather than the exception. For others however the delays in payment come about because of lack of concurrence between the local budgetary process and the pricing of the project. In order therefore that money will not become a bottleneck during the implementation process and in turn bring about overruns, governments of LDCs should take a close look at their payment procedures as well as their budgetary processes.

IV. Reconciliation of the views of Donors and Recipients

57. Given the unique configuration of impediments in each country one wonders whether a generalized solution to the problems enumerated above can be put forward to provide the sort of policy objectives that would be sensitive enough to the particular needs of the individual countries. Unfortunately, there is need for a synthesis of the problems so that a generalized solution can be offered.

This hinges largely on aid co-ordination and is best considered at three levels: (a) within the government of a recipient country, (b) between donors, and (c) between aid receiving governments and donors.

(a) Co-ordination within government

58. It became clear during the visits to the least developed countries that manpower shortages, combined with poor co-ordination among various implementing ministries, was the biggest hurdle to effective utilisation of aid. Governments of least developed countries would do well to take prime responsibility for strengthening local aid co-ordination. They should devise means for better internal co-ordination between ministries and other executing agencies. No longer should poor responses by line ministries and state organisations to instructions from the Central Unit be allowed to make project implementation in their countries a difficult task. Convocations by the Central Unit should not be allowed to go unheeded, or where heeded, attended by inadequately briefed officials. Nor, should the officials of the Central Unit resort to informal means to get information on rates of project execution. African LDCs should get these lapses corrected as a matter of urgency.

59. Perhaps, then, aid co-ordination may be yet the other area that these countries need some technical assistance from the donors. Ministers and officials with whom the mission spoke felt the need for such assistance. The only caveat they added in this regard was that attempt to assist them to strengthen their administrative systems should be limited to project and programme related technical assistance in order to avoid the implantation of expatriate in operational postions in their countries. They also felt that untying technical assistance to permit the financing of Third World countr · experts would be a means to improve the effectiveness of the assistance. They were of the view that experts from these countries were generally less expensive and more likely to be familiar and sympathetic with local customs and aspirations.

(b) Co-ordination between donors

60. As regards the donors, it appears harmonisation of aid procedures is something that should engage the attention of all concerned if African least developed countries are going to make effective use of aid whether at current levels or at higher levels. Thus, while respecting the peculiar circumstances of each donor country, some measure of co-ordination of procedures must, nonetheless be found. For example, there will be a great need for informal sharing of information. This is best done at the local levels through informal contacts between donors' field representatives. In this way, donors will be able to avoid excessive concentration on a small number of sectors.

(c) Co-ordination between recipient governments and donors

61. Another area that needs harmonisation is in the field of co-financing. When donors enter into parallel-type of co-financing, arrangements or efforts should be made to harmonise the appraisals, terms, purchasing and administrative arrangements to reduce the burden on the recipient countries. In this connection, it would be useful if one of the major donor agencies concerned, on behalf of the donor group, would take the lead to put together the whole financial package.

62. Briefly, what the foregoing is designed to achieve is to enable least developed African countries to make the best use of whatever aid that comes to them so that they will be able to expect and receive more.

V. The overriding concern of the least developed African countries: an overview

63. While a reconciliation of the points of view of donors and recipients will create conditions necessary for increase in the absorptive capacity of African LDCs, the conditions need to be supplemented to assure success. This is necessary because of the peculiar circumstances of the African LDCs. Their circumstances are special because unlike most other developing countries, African LDCs are countries whose per capita income are low and have a limited inventory of human capital or physical infrastructure. Their exports are dominated by one or two crops and over the last decade their prices have been subjected to wide variations which have resulted in serious swings in their incomes, government revenue, domestic savings and foreign exchange earnings. The instability has affected their planning ability as well as their economic performance. The problems have often been aggravated by national disasters such as drought, floods and pests. They, unlike other developing countries therefore, must receive assistance substantially above normal. Development has halted in most LDCs, in the face of overwhelming problems of short-term disequilibrium and adjustment. Consequently, aid to these countries has shifted perceptibly away from development to emergency type assistance. It is against such a background that the following is put forth.

1. Assistance with present installed capacity

64. Some of the country programme have made references to need to complete ongoing projects, need for inputs to enable installed capacities to be utilized fully and need for spare parts to maintain existing investments. It is felt though that the references have not been emphasised enough. At a time when resources are scarce, their good husbanding dictates that priority must be given to the full utilization of already completed projects and early completion of incompleted projects. By all means new investments must be undertaken; but efforts must also be made to improve capacity utilization of earlier and existing investments.

65. The country review programmes have detailed a list of new projects that need to be financed. This is of course in keeping with the request that was made by the donors. But this request must be viewed against the earlier indication that there was going to be a short as well as a long-term action programme. As a result of passage of time the short-term programme is likely to be forgotten. It will be a great tragedy if this were to be so. This is because the benefits from already completed projects as well as benefits from half-completed projects are within the reach of the African LDCs. At most no more than two years will be needed before these can be realised. Against this should be set the benefits to be gained within five to six years from new investments. Obviously the present value of money a year from now is worth more than that which will accrue six years from now.

66. Therefore much as donors may be restricted, because of their legislation to engage in balance of payments support financing, cost overrun financing, programme aid financing, etc., an appeal is made here to the effect that at least a temporary departure should be made to save the situation. In African LDCs new investments need not necessarily lead to growth. And funds must now be divided between existing projects and new projects if African LDCs are to be helped to become self-reliant at some future date.

2. Local cost financing

67. But granted that donors cannot genuinely consider total project financing, must they not indicate how far they can go. The guidelines as they stand now only say that donors will accord local cost financing to projects on a case by case basis after considering the development objectives of both the recipient and the donor country. Granted that the answer to the last issue were positive, how much could the planner in a recipient country consider approriate to include in the budget. The guidelines as they stand now are not very operational, at least from the viewpoint of the recipient and so must be modified.

68. For example it is common knowledge that most financing institutions set ceilings on how much they will provide for a particular project. Where the ceiling has to be exceeded a special case has to be made. Thus it is not unusual to find that one institution will only finance foreign exchange cost of a project or have an overall exposure of say X of the total project cost whichever is the lower. Another may say it will finance up to Y% of the total project cost, but within that ceiling there will be no restriction on the division between foreign and local costs that may be funded. Such ceilings have proved to be of great help to project sponsors and DAC donors and for that matter all donors will do well to articulate this in their guidelines. The issue of case by case study should be left for those projects where ceilings have to be exceeded. By so doing they will not only narrow the cases for such consideration but they will also facilitate project selection and implementation.

3. Recurrent cost financing

69. The time has come when economic and financial analysis of development programmes should explicitly include an assessment of the total recurrent cost burden that the programmes will entail. In the meantime donors must do their best to provide for at least three to five years recurrent costs in their aid programmes.

70. In general most projects attain full production after a period of five years from the date of start up. Unless there are extraneous circumstances most projects will achieve a cash break even point at full production. Five years can therefore be taken as the time horizon during which the donor can support the project with recurrent costs contributions. A reimbursement of the operating costs, associated with full production, can be given for the project or programme in a declining order. For example the amount to be provided in the first year may be 5/15, while that for the second year will be 4/15 and that of the fifth year as 1/15.

4. Untied Aid

71. The tying status of total ODA from DAC members is another area that needs clarification as far as African LDCs are concerned. There is need to lay down a minimum proportion of aid that is not tied.

72. The issues about 'tying' that are raised here relate to firstly the high percentage of tied aid that now reaches LDCs and secondly the limited choice that is available to the recipient. For example LDCs while appreciating the various degrees of untying that take place within DAC could do with a stated minimum of untying of say 75%. And as regards the balance of 25 per cent they would like to have the choice of selecting the goods and services from sectors of the economy which are competitive on the world market.

73. While African LDCs cannot dictate the terms of grants, which may be tied, they feel that loans should, as far as possible, be extended on an untied basis. They also feel that a good proportion of tied grants must be used to buy spare parts to maintain existing investments as well as inputs to feed underutilized capacities.

74. Their dislike for tied aid used in establishing new projects stems from the fact that quotations for such projects are not subjected to international competitive bidding and therefore their prices tend to be inflated. Besides at a time when they are anxious to adopt labour intensive technologies, tied aid for new projects unwittingly prolong the technologies that are capital intensive.

75. As regards the issue of technical assistance, all are agreed that here virtually all the DAC countries follow a tied policy. In fact no less than 90 per cent of technical assistance aid is effectively tied. The conference of LDCs in Paris should provide an opportunity for recipients to impress on DAC members the need for some of their members to relax their tying conditions to permit procurement and/or hiring of services from third world countries since such people understand their case better than those from developed countries. The conference should also provide an opportunity for LDCs to plead with the centrally-planned economies to begin to untie their procurement since their aid is 100 per cent tied up till now.

5. Ensuring existence on a shelf of projects

76. Resource transfers to least developed countries will only be relevant if there is a sufficient absorptive capacity in these countries for such transfers. Past experience demonstrates that the problem of insufficient absorptive capacity has been a persistent impediment in efforts to deploy external resources in development programmes. Although the problem can be traced to both donors conditions and recipients' administrative capacity, there is one key area from the side of the latter which should receive the urgent attention of all concerned if any headway is to be made.

77. This relates to having in place a well identified and prepared shelf of projects and programmes that will command the respect and support of the donor nations for financing. But, to say this is only to pose one side of a vicious circle problem. The least developed countries lack such projects because they do not have the financial, technical and administrative means to prepare such projects. It is for that reason why donor countries should give support to the idea of establishing a new project preparation facility for these countries. This fund, which for the African least developed countries, will be managed by ECA, will constitute an independent revolving fund to be used solely for the objective of identifying and having prepared a shelf of good projects in these countries.

78. The way the facility will operate will be as follows. On the assumption that the average cost of project identification and preparation will be around $1. million and it is proposed, initially, to have at least five projects prepared in each country each year, then the figure will be $5 million per annum. If one project out of the five gets implemented in a year and the countries are asked to pay for the cost of preparing the implemented projects, then the fund would be replenished by $1 million. Thus, over the 10-year period envisaged by UNCTAD a fund of $40 million (which after a period will be a revolving fund) will be necessary to help break the bottleneck in effective use of aid brought about by the lack of well identified and prepared projects.

79. In asking for such a fund to be established we are not unmindful of the fact that there are in existence now numerous funds designed to do all sorts of work. But it is a fact that there is no such fund in existence to cater for the special needs of the LDCs. It is against such a background and also to demonstrate the concern for the LDCs why this facility is being sought. In the decade ahead these countries are expected to face extreme financial difficulties and one way to help ameliorate their plight is to focus the feasibility work on quick disbursing and yielding projects. This should be the guiding principle for those who will be called upon to manage the feasibility fund facility if it is set up.